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SENSITIVE
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DEPT FOR SRAP, SCA/FO, SCA/RA, AND SCA/A
DEPT PASS AID/ASIA SCAA
DEPT PASS USTR FOR DELANEY AND DEANGELIS
CENTCOM FOR CSTC-A, USFOR-A
TREASURY FOR MHIRSON, ABAUKOL, AWELLER, AND MNUGENT
COMMERCE FOR HAMROCK-MANN, DEES, AND FONOVICH

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TAGS: PREL PGOV EINV ECON ETRD EAID BEXP AF
SUBJECT: A window into Afghanistan's North

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¶11. (U) SUMMARY: A visit to Mazar-i-Sharif revealed a relatively vibrant economic environment, concerns about growing insecurity especially in nearby Kunduz, and several very effective AID programs helping business students and Islamic credit unions.

¶12. (U) Coordinating Director for Development and Economic Assistance Wayne and USAID Director Frej accompanied Afghan Minister of Commerce and Industries (MOCI) Shahrani to Mazar-i-Sharif on October 1, where together they canvassed a wide range of development programs designed to bring economic stability to Afghanistan's northern region. Regional Command-North (RC-N) Commander Brigadier General Joerg Vollmer provided an overview of regional security, noting a lack of both security forces, particularly police, and training for Afghan counterparts in his command. He listed NATO's partners' investments in various sectors, including airports, roads, and hydropower. Balkh Province Governor Atta Mohammed Noor asked for signature infrastructure projects for Balkh province, and affirmed the value of a potential duty-free zone to the region's entrepreneurs. The delegation launched Afghanistan's second provincial central business registry office (the primary purpose for the visit), met with the Balkh University Chancellor, held a luncheon roundtable with USG-sponsored business interns and business leaders, and met members of USAID-funded Islamic Investment Finance Cooperatives (IIFCs). END SUMMARY.

RC-NORTH COMMANDER POINTS TO ANSF SHORTAGE AND INADEQUATE POLICE SALARIES AS A CONSTRAINT ON CONFIDENCE BUILDING

¶13. (SBU) Brigadier General (BG) Vollmer highlighted insurgency and security issues in his nine-province area of responsibility (AOR), home to approximately 10 million Afghans. The population remains primarily rural, distributed among approximately 9,000 villages and five major cities. The RC currently fields 5,700 ISAF troops, 7,000 Afghanistan National Army (ANA) soldiers, and 12,000 Afghanistan National Police (ANP). In Kunduz, for example, 1,000 police officers protect 170,000 residents. It is thus no surprise that insurgent groups have increased activity. BG Vollmer noted that the shortage of Afghanistan National Special Forces (ANSF) officers is a primary constraint to consolidating central government control and building confidence among the RC's diverse ethnic mix. Vollmer reported that an agreement with local governors and the national government to increase police salaries and pay them regularly in local communities would be more effective than spending the same funds to arm local militias or sending the police to other parts of the country. In his view, the latter two options undermine

confidence in the central government. (Governor Atta favors relying on the police, while the Governor of Kunduz favors arming local militias.)

¶4. (SBU) Vollmer noted a broad variance in ISAF civilian-military coordination across RC-North's five Provincial Reconstruction Teams (PRTs). Civ-mil operations are closely coordinated in the German-controlled PRTs of Kunduz and Faizabad. Development advisors in Swedish/Finnish PRT Mazar-i-Sharif operate somewhat more independently of the military, while the Norwegian-run PRT in Meimana maintains strict separation between its civilian and military components. Once the ANSF are in a position to take over, Vollmer concluded, then "we can go home", in reference to graduating the military side of PRTs.

¶5. (SBU) Vollmer called Kunduz province his primary "area of concern," with Faryab province a close second based on numbers of insurgent incidents and general levels of insecurity. He called for greater efforts to recruit and train ANA and ANP with expanded German and U.S. mentoring, as well as more ANP training at the Mazar and Kunduz Regional Training Centers. He identified ANP training programs and linked Focused District Development mentoring as important steps in enhancing the professionalism and credibility of ANP district forces. Vollmer credited strong ISAF, ANA, and ANP coordination for the opening of 97% of polling stations in the region on Election Day.

ECONOMIC DEVELOPMENT AND SIGNATURE INFRASTRUCTURE PROJECTS: THE BEST WEAPON FOR SECURITY

¶6. (SBU) Calling economic development the best weapon against expanding insurgency, Vollmer noted that donor and Multilateral Development Bank-funded projects across the RC include hospitals, airports, railway lines, agriculture, water, and energy

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infrastructure. In Balkh province alone, total development expenditures are approximately \$700 million, including a major joint German/UAE reconstruction of the Mazar airport. German expenditures in Kunduz province have totaled 334 million Euros (approximately 492 million USD) with projects focused on bridges, roads, and hydroelectric projects. In Badakhshan, German funding includes 6.0 million Euros (8.8 million USD) to build a hospital and 3.8 million Euros (5.6 million USD) for airport reconstruction. Vollmer highlighted completion of the RC-North segment of the national ring road and the start of a road from Balkh to Bamyan that will provide an alternate route to the sometimes-snowbound Salang tunnel. He noted the importance of completing road construction across all five provinces. Vollmer called expanding irrigation in the agriculturally dependent north a challenge due to poor water quality, although he noted that Kunduz province boasts the most extensive and best-maintained irrigation system in the region.

¶7. (SBU) Vollmer noted relatively effective provincial governance structures and strong governors in Balkh, Faryab, and Badakshan. These governors, he said, have managed to make their provinces relatively poppy free, and look forward to signature infrastructure projects to reinforce licit agricultural activity. (Note: Balkh is poppy-free due to strong intervention by the Governor. However, the province is not hashish-free and remains one of the larger hash-producing provinces.)

GOVERNOR ATTA PRIORITIZES INFRASTRUCTURE DEVELOPMENT AND PRIVATE-SECTOR LED GROWTH

¶8. (SBU) In his meeting with the delegation, Governor Atta criticized international donor development spending in Balkh province. He asked for fewer workshops and seminars and more "hard" infrastructure development projects, and listed the Cheshma-i-Shafa hydro project in south-western Balkh as a priority. Extending irrigation canals from the Amu Darya river to the Balkh agricultural heartland, he asserted, will not only have a positive economic impact but also protect the environment.

¶9. (SBU) Atta recognized the need for private sector-led economic development in Balkh and expressed appreciation for the

USAID-supported, MOCI-led Afghan Central Business Registry (ACBR) initiative that the delegation would launch later in their visit. USAID Mission Director Frej thanked the governor for his feedback on assistance programs in Balkh Province and said that investment in northern Afghanistan is a priority. For example, the USG is considering large signature infrastructure projects in the water sector. Governor Atta thanked Frej for this commitment, and added he has an interest in addressing commercial investment activities. He requested assistance in creating a duty-free zone in the north and increasing visible projects like irrigation and power. A duty-free zone, he said, would complement the new railroad link which the ADB will fund, from Hairaton to Mazar-i-Sharif and the expanded airport.

REFORMS FACILITATE BUSINESS IN NORTHERN AFGHANISTAN

¶10. (U) Commerce Minister Shahrani joined Ambassador Wayne, Mission Director Frej and Governor Atta to officially open the country's second provincial business registry. (The first provincial business registration office opened in Jalalabad, Nangarhar Province, in July of this year.) The central business registry in Mazar-i-Sharif will service entrepreneurs from Balkh, Jawzjan, Samangan, Sar-e-pol, and Faryab provinces.

¶11. (U) The offices make it possible to complete all the steps required for business registration in a short time at one central location, ranging from obtaining a Ministry of Finance tax identification number to publishing a business name in the Ministry of Justice official gazette. All services together cost one low fee of 500 Afs (or 10 USD), paid directly to the Central Bank. A process that once took eleven steps and up to twenty days in Mazar will now take four steps, streamlining government services and reducing opportunities for corruption, and the whole process should be completed in two days or less. As added benefit, registered entrepreneurs will increase their potential to qualify for bank loans, attract investment, and accelerate customs clearances, and the Afghan Government will improve its data collection and reporting and its official revenue base. Minister Shahrani hailed the event as an important milestone.

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¶12. (U) The launch took place in a room crowded with private sector and government representatives, evidence of the business community's support for the reform. Ambassador Wayne praised Afghanistan's improvement in the "Starting a Business" category of the World Bank's Doing Business report, but pointed out that Afghanistan still ranks poorly in business licensing and permits, which represents the next stage of regulatory stream-lining. The new ACBR represents what is possible and should be extended to further stages of business operations in Afghanistan. (Note: The Ministry intends to expand this regulatory reform to Herat, Kandahar, Khost and Kunduz in the next several months. Entrepreneurs in all 34 of Afghanistan's provinces will eventually have access to this streamlined registration process. End note.)

FURTHER RESOURCING REQUIRED FOR UNIVERSITIES

¶13. (SBU) Balkh University Chancellor Mohammad Naser Hyder asked the U.S. to support construction of one of seven faculties on the new campus. USAID's Mission Director responded that USAID is committed to continuing its support to the university through its current teacher and faculty training programs. USAID is also funding construction of the Faculty of Education on the university's current campus, including capacity building for planning, financial and management operations, and maintenance of the new facility.

LINKAGES BETWEEN EDUCATION AND THE JOB MARKET

¶14. (U) Ambassador Wayne led a roundtable discussion with Balkh University business interns, intern graduates, and faculty. USAID's Afghanistan Small and Medium Enterprise Development (ASMED) project coordinates the internship program with the university. Male and female students, speaking impressive English, unanimously praised the program, which selects 150 students out of 500 applicants for a three-month professional training program followed by three-month

practical internships. Students requested the program be expanded to allow for more student participation, longer internships, and other professions beyond business. Minister Shahrani noted the Afghan Government's need to employ bright, energetic, and ambitious graduates (and even handed out his business cards). He pledged to recruit 8 to 10 graduates from the University in the future. USAID Mission Director Frej added USAID is also interested to recruit qualified Afghans in Kabul and at key regional platforms.

ISLAMIC-COMPLIANT FINANCIAL SERVICES TO RURAL COMMUNITIES BOLSTER STABILITY AND INVESTMENT

¶15. (SBU) The delegation also held a roundtable with members of the Islamic Investment Finance Cooperatives (IIFCs) (a credit union equivalent) from Balkh, Jawzjan, and Samangan Provinces. Mehir Momand, Afghanistan Supervisor and Examination Manager of the USAID-funded World Council of Credit Unions (WOCCU)/Afghanistan, chaired the event. Participants included female and male IIFC council members drawn from Afghanistan's traditional rural population. The discussion centered on the councils' provision of Sharia-compliant finance mechanisms. The councils also use repaid loans to provide Sharia-compliant "zakat" (charitable works) into community-determined projects such as mosque refurbishment and literacy training. Members requested that Minister Shahrani promote further efforts to develop Sharia-compliant credit instruments. Speakers noted that social pressure and personal communications are the best mechanisms to ensure that members repay loans.

¶16. (U) To date, IIFCs in Afghanistan have disbursed 29,926 loans totaling over \$18.6 million, with over 10,000 active borrowers and more than 39,000 network members. More than 95 percent of IIFC loans in the north are repaid on time. Loans range between \$500 and \$1,000 with terms between 6-9 months. USAID will soon increase WOCCU's program in the south and east to extend financial services to remote and marginalized communities. The IIFC members at the roundtable expressed hope that they would be authorized to provide larger loans in the future to help local businesses grow.

¶17. (U) COMMENT: The use of U.S. economic development resources to promote job creation, improving stability, and increased confidence in the Afghan government is a good investment in RC-N, where security threats are a growing concern. USAID's Office of Economic Growth (OEG) will continue partnering with the Minister of Commerce and provincial governors to improve the business enabling

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environment to encourage private sector-led growth. USAID's Office of Infrastructure, Engineering and Energy (OIEE) is looking into funding a signature water project in Afghanistan's northern or western region. The students, business people and credit union members were clearly enthused by their participation in the USG assistance programs and made clear their hopes that these opportunities could be extended to more Afghans. End Comment.

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